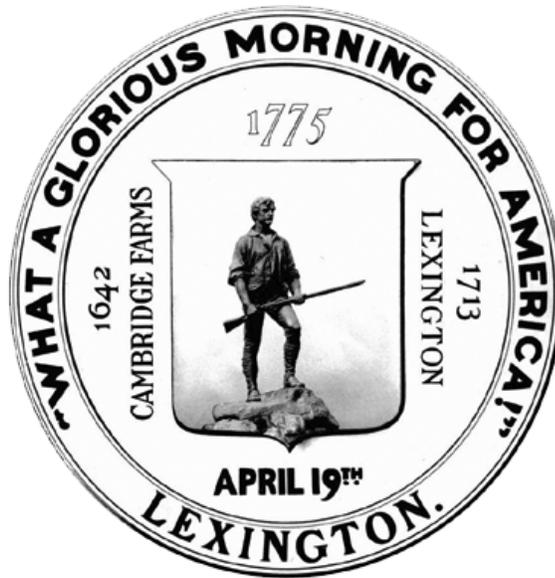


APPROPRIATION COMMITTEE

TOWN OF LEXINGTON



REPORT TO THE NOVEMBER 2, 2015 SPECIAL TOWN MEETING #2

Released October 26, 2015

APPROPRIATION COMMITTEE MEMBERS

Glenn P. Parker, Chair • John Bartenstein, Vice Chair/Secretary
Robert N. Addelson (ex-officio; non-voting) • Kathryn Colburn • Mollie Garberg
Alan Levine • Beth Masterman • Eric Michelson • Richard Neumeier • Andrei Radulescu-Banu

Contents

Summary of Warrant Article Recommendations	ii
Introduction	1
Warrant Article Analysis and Recommendations	2
Special Town Meeting	2
Article 2: Amend Minuteman Regional Agreement.....	2
Article 4: Appropriate for Water System Improvements	4
Article 5: Appropriate for Property Improvements - 241 Grove Street.....	4
Article 6: Appropriate Funds For Fire Station Site Study	5
Article 7: Amend FY 2016 Operating, Enterprise Fund And Community Preservation Budgets	6
Article 8: Appropriate To and From Specified Stabilization Funds.....	8
Article 9: Appropriate for Authorized Capital Improvements	9
Article 10: Appropriate for Prior Year's Unpaid Bills.....	9

Summary of Warrant Article Recommendations

Abbreviations

EF	Enterprise Fund	CPA	Community Preservation Act
GF	General Fund	DSSF	Debt Service Stabilization Fund
RE	Retained Earnings	IP	A motion to Indefinitely Postpone is expected
RF	Revolving Fund	TDM	Traffic Demand Management

Special Town Meeting

Ar- ticle	Title	Funds Requested	Funding Source	Committee Recommendation
2	Amend Minuteman Regional Agreement	\$0	n/a	Disapprove (1-4) 2 Abstentions
4	Appropriate for Water System Improvements	\$2,500,000	Water EF Debt, Retained earning	Approve (7-0)
5	Appropriate for Property Improvements - 241 Grove Street	\$200,000	CPA	Approve (7-0)
6	Appropriate Funds for Fire Station Site Study	\$20,000	General Fund	Approve (9-0)
7	Amend FY2016 Operating, Enterprise Fund and Community Preservation Budgets	See below	General Fund	Approve (7-0)
8	Appropriate To and From Specified Stabilization Funds	See below	SF Revenue	Approve (7-0)
9	Appropriate for Authorized Capital Improvements	Unknown	Unknown	IP
10	Appropriate for Prior Year's Unpaid Bills	\$15,076	FY2016 Dept. of Public Works Operating Budget	Approve (9-0)

Introduction

Two Special Town Meetings (STMs) are scheduled for November 2015. This report addresses Articles 2 – 10 of Special Town Meeting (STM) #2. The Appropriation Committee will submit a report on STM #1 articles separately for publication a week before they are to be addressed at Town Meeting on December 2, 2015. Special Town Meeting #1 contains Articles 1-4 which address school capital and other related projects.

This report is distributed to the members of Town Meeting as a printed document and as an electronic document via the Town website. It is published a week prior to the session when the articles are anticipated to be taken up in Town Meeting.

Acknowledgements

The content of this report, except where otherwise noted, was researched, written and edited by members of the Committee with support from Town staff. Our Committee has the pleasure and the privilege of working with Town Manager Carl Valente; Assistant Town Manager for Finance Rob Addelson; our Budget Officer Patricia Moore; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Permanent Building Committee; Superintendent of Schools, Dr. Mary Czajkowski; and the Board of Selectmen. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report. Last but not least, we thank Sara Arnold, who records and prepares the minutes for our meetings.

Warrant Article Analysis and Recommendations

Special Town Meeting

Article 2: Amend Minuteman Regional Agreement	Funds Requested	Funding Source	Committee Recommendation
	\$0	n/a	Disapprove (1-4) 2 Abstentions

The Town of Wayland seeks to withdraw from the Minuteman Regional Vocation Technical School District (the District). Under the regional district agreement, withdrawal requires the unanimous approval by town meeting vote of all 16 member-towns. Lexington is the only member-town thus far to have put Wayland’s bid to withdraw on a town meeting warrant. If Wayland’s request is approved by all the member-towns, its membership in the District would end in July of 2017. Until that time, Wayland would retain its full voting rights and financial obligations.

Why does Wayland want to leave the District?

At its 2015 open annual town meeting last spring, Wayland passed a motion, by a vote of 130-4, calling for the Town to withdraw from the District. As reasons for this action, proponents cited low enrollment from Wayland, high per-pupil costs, and uncertainty regarding the upcoming school rebuilding process. Town officials claim that the decision to seek withdrawal was not a sudden reaction but reflected sentiment that had been simmering for many years.

Currently Wayland is sending two students to Minuteman, although in the recent past enrollment was significantly higher. A major reason for the decline was the opening of a new Wayland high school building in September 2012.

Year	2010	2011	2012	2013	2014	2015
Wayland Full-Time Students	13.5	16	11	8.5	8.5	2

If Wayland were to leave the District, it would have a continued responsibility to contribute to the capital costs of facilities already in place. It would, however, avoid payments for already-incurred liabilities for pension and retiree health care costs (OPEB) which are currently undefined but could be large. Wayland students would still be able to attend Minuteman as out-of-district students, though only on a space available basis. The tuition would be at a rate set by the State Department of Secondary Education for out-of-district students that is currently lower than the actual per-student share of operating costs.

More significantly, leaving the District would potentially allow Wayland to avoid most of the town’s share of upcoming costs to revitalize Minuteman. Although it would remain responsible for all capital costs incurred prior to leaving, those costs would be only a small portion of the entire project cost.

Under current State regulations, the tuition a regional school district may charge to out-of-district students does not ordinarily include a provision for capital costs. This is important because the District is about to take on one of two major capital projects. The preferred alternative is a \$114 million, MSBA-approved project to construct a new building, for which the MSBA has already committed to reimburse 40% of the costs. If the reconstruction project is not approved by the District, the fallback is to renovate the existing building without MSBA assistance at a \$100 million price tag.

A newly passed State regulation allows a regional school district to recover capital costs from out-of-district students in the form of a “facilities fee,” but only for MSBA-approved projects. If Wayland were allowed to leave the District, and the District then opted for a renovation project instead of the MSBA-approved replacement project, Wayland would escape having to pay its share of the costs for bringing the school up to building code and putting the building in a condition allowing it to remain accredited.

What are Lexington’s Interests?

Lexington’s interests are the same as the District’s: proceeding to update the school by the most economical method. Approval of the MSBA project would benefit the District in two ways: 1) it would provide the District with a 40% State reimbursement on a new building; and 2) it would allow the District to recover a portion of its share of the capital costs from out-of-district students in the form of a facilities fee.

Recommendation and Analysis

This Committee is divided on the Wayland withdrawal request.

Majority Position: Four of the seven committee members present during our deliberation on this article believe there is a financial downside to approving Wayland’s request for withdrawal because it would offload pension and OPEB liability to other District members with no apparent benefit. If Lexington were to vote ‘No’, Wayland’s withdrawal process would end here and now because agreement must be unanimous among all member towns.

The majority note that in 2014 and 2015, the District tried but failed to get the unanimous approval of all of its members to update its Regional Agreement. The proposed revision was a compromise that would have addressed shortcomings preventing new towns from joining the District; changed the weight of each member’s school committee vote and liability for operating and capital costs; and allowed a member town to withdraw from the District with only a two-thirds majority vote. Lexington was one of the first towns to approve this revised agreement. Wayland, ironically, was the only town to reject it. Rejecting Wayland’s request for withdrawal and stopping the process could trigger the reopening of negotiations for updating the Regional Agreement in ways that benefit the entire District.

The majority also note that approval for the MSBA project requires either unanimous approval from all 16 member-towns or support from a majority of voters in a District-wide referendum. Letting Wayland out of the District could make that process harder. Wayland would remain a District member until July 2017, long after the June 30, 2016 deadline for accepting the MSBA project, and Wayland’s Town Meeting might not support a project that could subject the Town to future facilities-fee costs for out-of-district students.

Minority Position: Three committee members favor indefinite postponement of the article, believing there is no requirement to take action before the spring and that views on the best course of action could well change between now and then. One of the minority members voted to recommend approval of Wayland’s request should the matter come to a vote and two abstained without taking a position on the merits.

The minority is concerned that keeping municipalities in the District against their will could have negative repercussions for the future operation of the District School Committee and the decision-making process for updating the Minuteman facilities. While the consequences of a dysfunctional relationship among the district towns are impossible to quantify, the minority believe they are significant enough to outweigh the relatively minor financial implications of Wayland’s withdrawal. As long as Wayland enrollment remains low, Wayland’s share of any costs will be less than one percent. Even if several other small towns with similar enrollments also withdraw, the financial implications for Lexington would still be relatively small. The minority feel that the most important challenges the District faces are resolving the current governance issues, addressing the inequities of in-district versus out-of-district fee levels, and creating an environment that encourages enrollment growth and fair sharing of all costs. They do not envision, at least at present, how disapproval of Wayland’s request to withdraw will help move the district forward.

The Committee recommends disapproval of this request (1-4 with 2 abstentions).

Article 4: Appropriate for Water System Improvements	Funds Requested	Funding Source	Committee Recommendation
	\$2,500,000	Water EF Debt, Retained earnings	Approve (9-0)

The Department of Public Works (DPW) seeks an appropriation of \$2,500,000 to repair and replace aging, unlined water mains underlying the East Lexington portion of Massachusetts Avenue. The DPW is advancing this project so that the work can be completed next year, before the commencement of the major roadway and intersection upgrade project that is being considered by the Board of Selectmen, with state funding, for this section of Massachusetts Avenue.

Lexington’s town water system, originally installed in the late 1800’s and early 1900’s, utilized unlined cast iron pipe which was the state of the art at the time. While unlined pipe can last for many years, it eventually oxidizes, becomes clogged with deposits or “tubercles,” and can be susceptible to pinhole leaks. For many years now, the DPW has been engaged in an annual program of refurbishing or replacing the Town’s unlined water mains, section by section, with pipe (originally cast iron and most recently more durable ductile iron) lined with cement. The lined pipe has improved corrosion resistance and should have a life expectancy of a century or more. The replacement project, which has involved an investment of approximately \$900,000 each year, is now about 95% complete.

The water mains underlying the eastern portion of Massachusetts Avenue (roughly from the Arlington Town line to Woburn Street) represent one of the last segments of the town-wide pipe replacement program remaining to be done. This will be a particularly challenging project because of traffic congestion in the area; the existence of double sets of pipes along most of the route (one pipe on each side of the street to facilitate residential and business connections); and the age of the pipe, some of which dates back to 1896. Although there is no water quality problem at this time, testing has shown extensive oxidation and crystallization of the iron pipe walls and consequent risk of pinholes and stress cracking.

Given the extensive excavation that will be required to replace the water mains, it makes sense to complete that work before commencement of the state-funded roadway upgrade project on the portion of Massachusetts Avenue from Pleasant Street to Marrett Road, which is anticipated to begin as early as the spring of 2017. This will avoid interference with the roadway reconstruction work and obviate any need to reopen the street after it has been permanently resurfaced.

The project costs are proposed to be financed by a combination of borrowing and an appropriation of \$400,000 from the water fund’s retained earnings, which currently have a balance of approximately \$1,786,659. Future debt service costs will be borne by the water enterprise fund and included in the water rates. Advancing this appropriation to the fall special town meeting may make it unnecessary to include some or all of the usual \$900,000 appropriation for water main replacement in the FY2017 water fund budget to be approved at next spring’s annual town meeting.

The Committee recommends approval of this request (7-0).

Article 5: Appropriate for Property Improvements - 241 Grove Street	Funds Requested	Funding Source	Committee Recommendation
	\$200,000	CPA	Approve (9-0)

In 2014, Town Meeting appropriated CPA funds for the purchase of an approximately one-acre portion of the Wright Farm property on Grove Street. The parcel is adjacent to the main portion of the Farm that was acquired a few years earlier, which is now Town-owned conservation land. The house is to be turned over

to the Lexington Housing Assistance Board (LexHAB) to create an affordable housing unit. The barn and the remaining portion of the land will be used for conservation purposes.

LexHAB is currently requesting \$200,000 for interior and exterior repairs to prepare the house for occupancy. Their repair estimate, totaling \$177,100, is detailed in the table below. An additional \$22,900 was added as a contingency to accommodate anticipated requirements of the Historical Commission. Should Town Meeting grant the request, LexHAB intends to begin work in the Spring of 2016, using their preferred suppliers in order to keep costs low.

LexHAB Cost Estimates for repair of 241 Grove St.	
Exterior	
Paint	\$12,000
Carpentry	\$2,000
Windows	\$20,000
Demolish garage	\$20,000
Interior	
De-leading	\$20,000
Bathroom	\$15,000
Ceilings	\$5,000
Hardwood Flooring	\$3,000
Painting	\$15,000
Kitchen	\$20,000
Electric	\$5,000
Insulation	\$5,000
Hardscape & Landscape	\$10,000
Permit Fees	\$2,000
Repair Contingency	\$23,100
Historical Commission Requirement Contingency	\$22,900
Grand Total	\$200,000

Though Town Meeting had previously authorized the Board of Selectmen to transfer the property to Lex-Hab, at the time of this report the deed to the property had yet to be transferred. The funding source for the proposed expenditure of \$200,000 is recommended to come from the Community Housing Reserve of the Community Preservation Fund.

The Committee recommends approval of this request (9-0).

Article 6: Appropriate Funds For Fire Station Site Study	Funds Requested	Funding Source	Committee Recommendation
	\$20,000	General Fund	Approve (9-0)

This article presupposes that a new building is needed for the Fire Station Headquarters and that a suitable site must be found before a new building may be designed and constructed. The current site has been stud-

ied several times. The site is relatively small and a number of constraints limit the possibilities for a new station. Other sites have also been considered. No site, including the current site, looks to be favorable at present in light of all aspects of locating a new building including ownership, cost, parking, etc. Hence, it is prudent to take a second look at the current site and possibly other sites, especially since the previous studies did not leave every stone unturned.

This article responds to this situation with a request for the appropriation of \$20,000 to enable the retention of engineering and design services for definitive and in-depth evaluation of selected locations in the search for a site for a new primary fire station.

The current site of the Fire Station Headquarters is the primary target of the proposed appropriation. The issues that must be resolved before the current site could be determined to be suitable include

- Whether there are any reasonable prospects to change the site to make it more suitable for a new station;
- Clarification of the restrictions imposed by the cul de sac street Camelia Place.
- Whether there are possible configurations for a new building that fit the site better than previous concepts.

Other issues may also be studied.

The scope of the article is sufficiently broad to allow for limited studies of other sites if the current site is determined to be unsuitable or less preferable than other sites.

The Committee recommends approval of this request (9-0).

Article 7: Amend FY 2016 Operating, Enterprise Fund And Community Preservation Budgets	Funds Requested	Funding Source	Committee Recommendation
	See Below	Various (see text)	Approve (7-0)

Background

At the conclusion of the 2015 annual town meeting, approximately \$825,308 of FY2016 revenue remained unallocated and available for appropriation. Since that time there has been an upward revision of the estimate of FY2016 revenue, so that the amount now available for appropriation at this special town meeting is \$994,231. The revenue increase is driven primarily by an increase in State aid based on the final FY2016 state budget approved in July. There may be some additional increase in revenue when FY2016 new growth is finalized later this fall but it is expected to be modest.

The revised FY2016 revenue estimate is net of a set-aside of \$643,650 that will be applied to fund the FY2015 snow and ice deficit per the requirements of the Department of Revenue. Financing of a prior snow and ice deficit does not require action by Town Meeting.

Of the total funds that now remain unallocated, \$662,194 results from a decision made at the annual town meeting to lower the Town Manager’s original recommended appropriation of \$1,862,194 to the OPEB Trust Fund to \$1,200,000 in order to preserve flexibility in case there were urgent needs in the fall. The source of funds for the originally planned OPEB contribution was primarily tax levy money freed up by an appropriation under ATM Article 4 of \$1,858,947 from the Health Claims Trust Fund (HCTF) to finance FY2016 health care benefit costs. Recently, in the process of certifying the Town’s free cash as of July 1, 2015, the Department of Revenue noted a deficit in the Town’s withholding account for payment of premiums to the State’s Group Insurance Commission (GIC) of approximately \$647,000. The Department of

Revenue has notified the Town that for its FY2016 tax rate to be approved, the Town must demonstrate that it has funded this deficit. The \$662,194 from the HCTF referenced above will be the source of funding this deficit. Financing of the deficit does not require action by Town Meeting. Town staff have begun to audit all transactions posted to the withholding account since its inception on July 1, 2012 in an effort to identify the source of the deficit. That audit is ongoing.

After accounting for the financing of the withholding account deficit, the proposed adjustments described below and the proposed tax levy financing of the Fire Station Site Study under Article 6, the amount of un-allocated FY2016 revenue remaining available for appropriation will be approximately \$132,000.

Operating Budget

A number of minor changes to the FY2016 operating budget will be requested under this article. They are described in the following paragraphs.

1) In FY2015, the Town received \$575,000 in settlement of a claim that a fire engine purchased in 2010 was defective. The \$575,000 was not available for appropriation but flowed to free cash at the end of the fiscal year. At the March 2015 special town meeting, \$500,000 was appropriated to buy a replacement engine. A \$475,000 bond anticipation note was issued in June 2015 to finance the purchase of the replacement engine. It is now proposed that \$479,608 of free cash be approved as a supplement to the FY2016 debt service budget to retire the principal and interest on the note when it comes due. The net effect is to apply the settlement proceeds to finance the purchase of the new fire engine.

2) A supplemental appropriation of \$6,000 will be requested from the tax levy to the line item for Town celebrations to allow the purchase of staging for use during the Patriot’s Day parade. This equipment can also be used at other Town events and will be available for possible rentals as well.

3) A supplemental appropriation of \$10,000 will be requested from the tax levy to the line item for DPW expenses to allow the Engineering Department to obtain bid documents for renovation of significantly deteriorated sidewalks immediately adjacent to Cary Library. Accelerating this design work will provide a basis for obtaining more accurate cost estimates prior to seeking an appropriation for reconstruction of the sidewalks at the 2016 annual town meeting and allow the project to be completed on an expedited basis.

4) The original FY2016 budget for the Facilities Department approved at the annual town meeting did not include funds to cover an annual “capacity charge” and a solar “carve out” charge that are required to be paid annually under the Town’s long-term contract for the supply of electricity. The amount necessary to fund these charges is approximately \$179,000. A supplemental appropriation in this amount is being requested to cover these costs.

Enterprise Fund Budgets

Several adjustments are proposed to the water and sewer enterprise fund budgets.

1. Adjustment for Final MWRA Assessments. The MWRA component of the original FY2016 Water and Wastewater Fund budgets was based on preliminary assessments. The MWRA’s final sewer assessment, issued in July, was slightly lower than the preliminary assessment, resulting in the reduction of Wastewater Fund costs by \$71,540. The water assessment was unchanged. The FY2016 sewer rate set earlier this fall was based on the final assessment and the proposed budget change is a bookkeeping adjustment to reflect the change in anticipated costs.

2. Adjustment of Appropriation for Rate Relief. During FY2015 the Town of Bedford, which purchases its MWRA water from Lexington on a pass-through basis, again drew an extraordinary volume of water from Lexington. As the result of an earlier contamination problem, Bedford decided in the fall of 2014 and spring of 2015 temporarily to shut down several Bedford town wells for maintenance. Because those wells are ordinarily used by the Town of Bedford as a supplemental water source, the shutdown significantly increased Bedford’s use of MWRA water. The excess usage by Bedford resulted in surplus FY2015 Lexington water fund revenues of approximately \$406,000.

Because Lexington’s annual MWRA water assessments are based on its share of the total water used by all MWRA communities in the most recently completed full calendar year, the temporary spike in Bedford usage had the effect of increasing Lexington’s MWRA water assessment for FY2016 (based on Lexington’s increased share of total MWRA usage in calendar year 2014), and will also increase the assessment in FY2017 (based on Lexington’s increased share in calendar year 2015). During this fall’s water and sewer rate-setting proceedings, therefore, it was decided to apply \$275,000 of retained earnings resulting from Bedford’s excess usage to mitigate the additional Bedford-related costs in FY2016; and to set aside the remaining \$131,000 of the surplus to offset the additional Bedford-related costs in FY2017.

At the 2015 annual town meeting, an appropriation of \$200,000 was made from the water fund’s retained earnings for rate relief (down from an appropriation of \$250,000 the previous year as part of a gradual process of “weaning off” of annual rate subsidies). This subsidy proved not to be necessary to maintain stable rates because, due to a reduced MWRA sewer assessment and high irrigation usage this past summer, the Selectmen were able to *reduce* the FY2016 water and sewer rates slightly on a combined basis even without the subsidy.

Netting these two developments, it is proposed to cover the increased FY2016 MWRA costs attributable to Bedford by increasing the previous appropriation from water fund retained earnings by \$75,000, bringing the total FY2016 appropriation to \$275,000.

3. *Adjustment for Changes in Debt Service.* The figures for water and sewer fund debt service included in the FY2016 budget appropriated at the 2015 annual town meeting were estimates. Following bond sales in February 2015, the actual amounts are now known and were used in setting the FY2016 rates this fall. As a housekeeping matter, it is proposed to adjust the appropriation for water fund debt service downwards by \$71,394 to the actual amount of \$1,344,114; and to adjust the appropriation for sewer fund debt service upwards by \$119,777 to the actual amount of \$1,060,456

No adjustments are required to the recreation enterprise fund budget.

Community Preservation Fund Budget

The motion under this article may include a restatement of the allocation of funds to the four specific reserves in the Community Preservation Fund based on new information on the amount that Lexington will receive as State matching funds. The match amount is expected to be higher than that assumed at the 2015 annual town meeting. An action at this special town meeting will be possible if the State match information is received in late October or early November, *i.e.*, before this special town meeting is dissolved. Otherwise, no action will be proposed.

The Committee recommends approval of all proposed actions under Article 7 (7-0)

Article 8: Appropriate To and From Specified Stabilization Funds	Funds Requested	Funding Source	Committee Recommendation
	See below	SF revenue	Approve (7-0)

The State statute authorizing towns to create and maintain a stabilization fund (G.L. c. 40, § 5B) was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes.

Creating these funds, altering their specified purpose and appropriating into or out of them requires a two-thirds vote of Town Meeting. Lexington’s first specified stabilization funds were established at the 2007 Annual Town Meeting.

Each “specified stabilization fund” holds monies for one or more purposes that were specified when the fund was created. An article essentially the same as the present one is now routinely included on the warrant to give Town Meeting the opportunity to appropriate monies into, or out of, such funds.

This article proposes to appropriate to the noted funds the following amounts. In each case, the Town received the money after the 2015 Annual Town Meeting under the terms of a memorandum of agreement between the Town and a property developer:

- \$1,481.44 into the *Transportation Demand Management Stabilization Fund*; \$481.44 from Cubist and \$1,000 from the Inn at Hastings Park.
- \$481.45 into the *Traffic Mitigation Stabilization Fund* from Cubist
- \$87,345 into the *Transportation Management Overlay District Stabilization Fund* from the owners of 115 Hartwell Avenue

The Committee recommends approval of this request (9-0).

Article 9: Appropriate for Authorized Capital Improvements	Funds Requested	Funding Source	Committee Recommendation
	Unknown	Unknown	IP

The Committee has not been informed of any need to take action under this article. Consideration will be deferred until the end of Town Meeting to allow for the possibility of a motion if deemed necessary.

The Committee has taken no position on this request.

Article 10: Appropriate for Prior Year's Unpaid Bills	Funds Requested	Funding Source	Committee Recommendation
	\$15,076	FY2016 Dept. of Public Works Operating Budget	Approve (9-0)

This article requests an appropriation of \$15,076 to pay Siemens for traffic signal maintenance services rendered during FY2015 but not invoiced until after the close of FY2015. Because no encumbrance was made in FY2015, the law requires a nine-tenths majority in a vote at this Special Town Meeting to approve this appropriation. The source of the appropriation is the current FY2016 Department of Public Works operating budget.

The Committee recommends approval of this request (9-0).